

REPUBLIC OF KENYA



Enhancing Accountability

REPORT	
THE NATIONAL ASSEMBLY PAPERS LAID	
DATE: 16 FEB 2021	DAY: Tuesday
TABLED BY:	OF Leader of Majority
CLERK-AT-THE-TABLE:	Moses Lemana

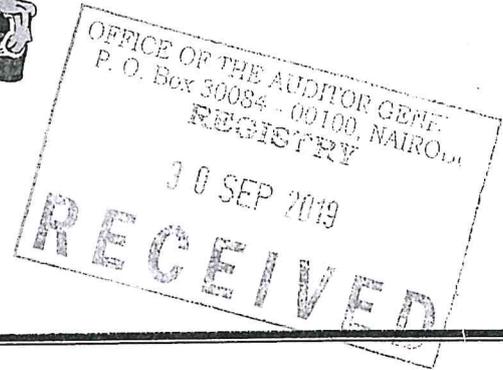
THE AUDITOR-GENERAL

ON

ROADS ANNUITY FUND

**FOR THE YEAR ENDED
30 JUNE, 2019**

STATE DEPARTMENT FOR INFRASTRUCTURE



ROADS ANNUITY FUND

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDING

JUNE 30, 2019

**Prepared in accordance with the Accrual Basis of Accounting Method under the International
Public Sector Accounting Standards (IPSAS)**

**Roads Annuity Fund
Annual Reports and Financial Statements For the year ended June 30, 2019**

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Roads Annuity Fund
Annual Reports and Financial Statements For the year ended June 30, 2019

Key Roads Annuity Fund Information and Management

(a) Background Information

The Roads Annuity Fund was incorporated/ established under the Public Finance Management (Roads Annuity Fund) Regulations, 2015 on 2nd April, 2015. The Roads Annuity Fund is domiciled in Kenya.

(b) Principal Activities

The objective and purpose of the Fund shall be to provide funds to meet the National Government's Annuity payment obligations for the development and maintenance of roads under the Annuity programme.

(c) Key Management

The Roads Annuity Fund's day-to-day management is under the following key organs:

- Oversight Committee
- Secretariat
- Officer Administering the Fund

(d) Fiduciary Management

The key management personnel who held office during the financial year ended 30th June 2018 and who had direct fiduciary responsibility were:

No.	Designation	Name
1.	Chairman	Dr. Kamau Thugge, CBS
2.	Officer Administering the Fund	Julius Korir, CBS
3.	Member	Jared Osoro
4.	Member	Mumbi Githaiga

**Roads Annuity Fund
Annual Reports and Financial Statements For the year ended June 30, 2019**

KEY ROADS ANNUITY FUND INFORMATION AND MANAGEMENT (Continued)

(e) Roads Annuity Fund Headquarters

P.O. Box 30260
Works Building
Ngong Road
Nairobi, KENYA

(f) Roads Annuity Fund Contacts

Telephone: (254) 0202723232
E-mail: ps@infrastructure.go.ke
Website: www.transport.go.ke

(g) Roads Annuity Fund Bankers

Central Bank of Kenya
Haile Selassie Avenue
P.O. Box 60000
City Square 00200
Nairobi, Kenya

(h) Independent Auditors

Auditor General
Kenya National Audit Office
Anniversary Towers, University Way
P.O. Box 30084
GOP 00100
Nairobi, Kenya

(i) Principal Legal Adviser

The Attorney General
State Law Office
Harambee Avenue
P.O. Box 40112
City Square 00200
Nairobi, Kenya

Roads Annuity Fund
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REPORT OF THE CEO
ROADS ANNUITY FUND

The Roads Annuity Fund is managed under the Annuity Fund Regulations 2015. The Board is governed through an Oversight Board chaired by the Principal Secretary, National Treasury. The Officer Administering the Fund is the Principal Secretary responsible for Roads.

Collections into the Fund are appropriated through the Annual Printed Budget. The collections are banked at the Central Bank of Kenya. After approval of the Annuity Budgets by the Oversight Committee, expenditure against the Fund is done for the Projects approved by the PPP Committee of the National Treasury Procurement for the Annuity Financed Projects is done through the PPP Act 2012.

In the Financial Year 2018/2019, the State Department through Kenya Rural Roads Authority (KeRRA) continued with implementation of the Annuity Financed Lot 33: Ngong-Kiserian-Isinya-Kajiado/Imaroro Roads Project. As per the Annuity Contract, the private promoter of the Project meets the bulk of the construction costs. As at 30th June 2018, the Annuity Fund had a bank balance of **Kshs.25,056,895,967**. In the Financial Year 2018/2019, the Annuity Fund had an allocation of **Kshs.11,180,000,000** under the Printed Budget.

In the Financial Year 2018/2019, the State Department of Infrastructure, through Kenya Rural Roads Authority (KeRRA) paid **Kshs.652 million** to the Project against the approved Project Budget of **Kshs.652 million** earlier on approved by the Oversight Committee.

The Kenya Roads Board (KRB) realized all the budgeted Annuity Funds of **Kshs.11,180,000,000**. However, owing to prior year challenges, the State Department was not able to transfer the entire collection to the Fund. The total transfer to the Annuity Fund Bank Account in the 2018/2019 amounted to **Kshs10,528,000,000**. The difference of **Kshs.652 million** between the actual collections and actual transfer to the Fund will be factored in 2019/2020 Budget as an increase and the same be transferred to the Annuity Fund Bank Account.

The Annuity Fund Bank Account closed with a balance of **Kshs.38,168,495,967**. In the Financial Year 2019/2020, the State Department of Infrastructure through its Agencies intends to roll out the following Annuity financed Projects.

Roads Annuity Fund
Annual Reports and Financial Statements For the year ended June 30, 2019

- (i) Lot 32: Illasit-Rombo-Njukini-Taveta
- (ii) Lot 3: Modogashe-Habaswein-Samatar and Rhamu-Mandera Roads
- (iii) Lot 15: Identified Town Roads in Nyeri, Kirinyaga, Muranga, Embu, Tharaka Nithi, Laikipia
- (iv) Lot 18: Identified Town Roads in Kakamega Vihiga, Bungoma, Busia
- (v) Lot 6: Kilgoris-Lolgorian(B3)/Kehancha-Lolgorian/Turbo-Shikhendu Endebess/Kakamega-Ingotse/Namukoye- Nzoia River-Musikoma (JN C33) Road/Ugunja- Ukwala-Ruambwa Port Victoria/Kiaeti-Malakisi- Lwakhakha
- (vi) Lot 8: Bomas-Kiserian-Magadi (C58) (Dualling Bomas-Kiserian-Section)/Bomas-Karen-Dagoret-Ruiru/ (Bomas-Dagoretti Market)/Uplands-Githunguri-Ngewa- Ruiru
- (vii) Lot 32: Illasit-Rombo-Njukini-Taveta
- (viii) Lot 3: Modogashe-Habaswein-Samatar and Rhamu- Mandera Roads
- (ix) Lot 15: Identified Town Roads in Nyeri, Kirinyaga, Muranga, Embu, Tharaka Nithi, Laikipia
- (x) Lot 18: Identified Town Roads in Kakamega Vihiga, Bungoma, Busia
- (xi) Lot 6: Kilgoris-Lolgorian(B3)/Kehancha-Lolgorian/Turbo- Shikhendu-Endebess/Kakamega-Ingotse/Namukoye- Nzoia River-Musikoma (JN C33) Road/Ugunja-Ukwala-Ruambwa Port Victoria/Kiaeti-Malakisi-Lwakhakha
- (xii) Lot 8: Bomas-Kiserian-Magadi (C58) (Dualling Bomas- Kiserian-Section)/Bomas-Karen-Dagoret-Ruiru/(Bomas-Dagoretti Market)/Uplands-Githunguri-Ngewa- Ruiru

The income and expenditure statement shows that the Fund will have funds to finance the earmarked Projects as per the following estimated surpluses.

Roads Annuity Fund
Annual Reports and Financial Statements For the year ended June 30, 2019

Financial Year	Amount (Ksh.)
2020/2021	51,091,719,813
2021/2022	54,881,574,813
2022/2023	58,732,001,813

Signed

CEO

**Roads Annuity Fund
Annual Reports and Financial Statements For the year ended June 30, 2019**

Management Discussion and Analysis

The Ministry, through the State Department for Infrastructure set out to implement the upgrading of the 10,000 km Roads partly through a Public-Private Partnership under the Road Annuity Program, and the program for upgrading Low Volume Sealed Roads (LVSR). In March 2016, the Cabinet approved Phase 1 Annuity Projects. In May 2018, The State Department of Infrastructure through its Implementing Agency; Kenya Rural Roads Authority (KeRRA) awarded the 91 km Ngong–Kiserian–Isinya- Kajiado/Imaroro Road Project being first Annuity Financed Road Project in Kenya. The project registered impressive performance in terms of output mainly due guaranteed and predictable funding over the 2018/2019 Financial Year. As at 30th June 2019, the project had consumed approximately 50% of the time but had achieved an output of approximately 62%. The promoter of the project is financing the greatest portion of the construction costs with the Government contributing a smaller portion.

The Project implementation details for Annuity Financed Lot 33 Project as at 30th June 2019 are as follows

Ngong – Kiserian – Isinya- Imaroro Road Project		
1	Length of Project	91km
2	Implementer	KeRRA
3	Service Provider	Intex RAF I Ltd
4	Commencement Date	21 st May 2018
5	Completion Date	20 th May 2020
6	Construction Period	2 years
7	Maintenance Period	8 years
8	Progress Achieved as at 30 th June 2019	62. %
9	Time elapsed as at 30 th June 2019	54%

The Project is expected to be completed by 20th May 2020. After the Construction period, the Government will pay predetermined annuities for eight (8) years during which period; the promoter will be maintaining the road. After the 8 year maintenance period, the promoter will have received all the annuities due, after which he will stop the maintenance and the Government, will take over.

The Annuity Financing model is an alternative financing mechanism for road works. It was pursued as an effort to reduce over reliance on exchequer funding which is already over stretched. The large portfolio of projects compared to the limited resources available had resulted in delayed execution of projects, pending bills and interest charges on delayed payments. One of the major challenges facing the Annuity Financing Model is the cost of financing which has contributed to the rather high cost of financing road works through the annuity model. The procurement process under the PPP Act also poses another challenge in regard to the number of steps required prior to award. The foregoing has resulted into delays in project award and execution.

Owing to the implementation success of the Ngong–Kiserian–Isinya- Kajiado/Imaroro Road Project, The state Department intends to continue implementing Lot 33 and also roll out the following projects over the 2019/2020-2021/2022.

Roads Annuity Fund

Annual Reports and Financial Statements For the year ended June 30, 2019

No.	Lot	Project Name	Length (km)
1	33	Ngong – Kiserian – Isinya- Kajiado/Imaroro Road	91
2	32	Illasit – Njukini-Taveta Road	67
3	15	Identified Town Roads in Nyeri, Kirinyaga, Muranga, Embu, TharakaNithi, Laikipia	35.4
4	18	Identified Town Roads in Kakamega, Vihiga, Bungoma, Busia	25.3
5	3	Modogashe-Habaswein-Samatar and Rhamu-Mandera Roads	143
6	6	Kilgoris-Lolgorian (B3)/Kehancha-Lolgorian/ Turbo-Shikhendu-Endebess/Kakamega-Ingotse/ Namukoye-Nzoia River-Musikoma (JN C33) Road/Ugunja-Ukwala-Ruambwa Port Victoria/Kiaeti-Malakisi-Lwakhakha	175
7	8	Bomas-Kiserian-Magadi (C58) (Dualling Bomas-Kiserian-Section)/Bomas-Karen-Dagoret-Ruiru/ (Bomas-Dagoretti Market)/Uplands-Githunguri-Ngewa-Ruiru	76

Projections from of the Annuity Fund show that there will be adequate balances over the 2019/2020- 2021/22 MTEF period to finance the partial construction and attendant annuity costs for all the earmarked projects

Corporate Social Responsibility Statement

There was no element of Corporate Social Responsibility under Lot 33: Ngong-Kiserian-Isinya/Kajiado-Imaroro Annuity Road Project.

Statement of Fund Management Responsibilities

Section 81 of the Public Finance Management Act, 2012 require the Accounting Officer of the Fund to prepare financial statements in respect of that Roads Annuity Fund, which give a true and fair view of the state of affairs of the Roads Annuity Fund at the end of the financial year and the operating results of the Roads Annuity Fund for that year. The Accounting Officer is also required to ensure that the Roads Annuity Fund keeps proper accounting records which disclose with reasonable accuracy the financial position of the Roads Annuity Fund. The Accounting Officer is also responsible for safeguarding the assets of the Roads Annuity Fund.

The Accounting Officer is responsible for the preparation and presentation of the Roads Annuity Fund's financial statements, which give a true and fair view of the state of affairs of the Roads Annuity Fund for and as at the end of the financial year (period) ended on June 30, 2019. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Roads Annuity Fund; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the

**Roads Annuity Fund
Annual Reports and Financial Statements For the year ended June 30, 2019**

Roads Annuity Fund; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Accounting Officer accepts responsibility for the Roads Annuity Fund's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Public Sector Accounting Standards (IPSAS), and in the manner required by the PFM Act, 2012 and (the State Corporations Act) – entities should quote applicable legislation as indicated under) . The Accounting Officer is of the opinion that the Roads Annuity Fund's financial statements give a true and fair view of the state of Roads Annuity Fund's transactions during the financial year ended June 30, 2019, and of the Roads Annuity Fund's financial position as at that date. The Accounting Officer further confirms the completeness of the accounting records maintained for the Roads Annuity Fund, which have been relied upon in the preparation of the Roads Annuity Fund's financial statements as well as the adequacy of the systems of internal financial control.

Nothing has come to the attention of the Accounting Officer to indicate that the Roads Annuity Fund will not remain a going concern for at least the next twelve months from the date of this statement.

Approval of the financial statements

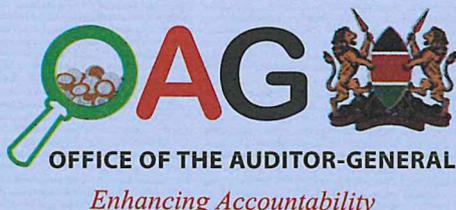
The Roads Annuity Fund's financial statements were approved by the Board on 30.09.
2019 and signed on its behalf by:


Principal Secretary
Prof. Arch. Paul Mwangi Maringa, (PhD),
CBS, Corp. Arch, MAAK, MKIP


Assistant Accountant General
Mwangashi Sophie Wakio
ICPAK No. 11341

REPUBLIC OF KENYA

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REPORT OF THE AUDITOR-GENERAL ON ROADS ANNUITY FUND FOR THE YEAR ENDED 30 JUNE, 2019 – STATE DEPARTMENT FOR INFRASTRUCTURE

REPORT ON THE FINANCIAL STATEMENTS

Opinion

I have audited the accompanying financial statements of Roads Annuity Fund set out on pages 11 to 43, which comprise the statement of financial position as at 30 June, 2019, and the statement of financial performance, statement of changes in net assets, the statement of cash flows, and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Roads Annuity Fund as at 30 June, 2019, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the Public Finance Management Act, 2012.

Basis for Opinion

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Roads Annuity Fund Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. There were no key audit matters to report in the year under review.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, I confirm that, nothing has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

The audit review was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit review to obtain assurance as to whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit so as to obtain assurance as to whether effective processes and systems of internal control, risk management and overall governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

Responsibilities of Management and those Charged with Governance

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Accrual Basis) and for maintaining effective internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal control, risk management and overall governance.

In preparing the financial statements, Management is responsible for assessing the Fund's ability to sustain services, disclosing, as applicable, matters related to

sustainability of services and using the applicable basis of accounting unless Management is aware of the intention to terminate the Fund or to cease operations.

Management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

In addition to the responsibility for the preparation and presentation of the financial statements described above, Management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them, and that public resources are applied in an effective way.

Those charged with governance are responsible for overseeing the financial reporting process, reviewing the effectiveness of how the Fund monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to overall governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them and that public resources are applied in an effective way, in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

Further, in planning and performing the audit of the financial statements and review of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and overall governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that

might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management's use of the applicable basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Fund to cease to sustain its services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Fund to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

I communicate with the Management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that are identified during the audit.

I also provide Management with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.


Nancy Gathungu
AUDITOR-GENERAL

Nairobi

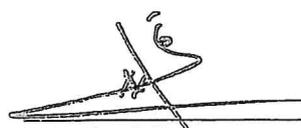
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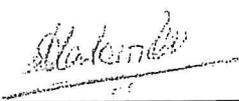


Roads Annuity Fund
Annual Reports and Financial Statements For the year ended June 30, 2019

Statement of Financial Performance for the Year Ended 30 June 2019

	Notes	2018-2019	2017-2018
		Kshs	Kshs
Revenue from non-exchange transactions			
Levies	6	13,763,600,000	26,142,895,967
Total revenue		13,763,600,000	26,142,895,967
Expenses			
Transfers to Kenya Rural Roads Authority	7	652,000,000	1,586,000,000
Total expenses		652,000,000	1,586,000,000
Surplus for the year		13,111,600,000	24,556,895,967.00


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Roads Annuity Fund
Annual Reports and Financial Statements For the year ended June 30, 2019

Statement of Financial Position as At 30th June 2019

	Notes	2018-2019	2017-2018
		Kshs	Kshs
Assets - Current assets			
Cash and cash equivalents	8	38,168,495,967	25,056,895,967
Total assets		38,168,495,967	25,056,895,967
Capital Fund	9	500,000,000.00	500,000,000.00
Accumulated surplus		37,668,495,967.0	24,556,895,967.0
		0	0
Total net assets and liabilities		38,168,495,967	25,056,895,967


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Roads Annuity Fund
Annual Reports and Financial Statements For the year ended June 30, 2019

Statement of Changes in Net Assets for the Year Ended 30 June 2019

	Capital fund	Accumulated Surplus	Total
At July 1, 2017	-		
Surplus for the Year		24,556,895,967	24,556,895,967
Capital fund	500,000,000		500,000,000
At June 30, 2018	500,000,000	24,556,895,967	25,056,895,967
At July 1, 2018	500,000,000	24,556,895,967	
Surplus for the Year		13,111,600,000	13,111,600,000
Capital fund	-		
At June 30, 2019	500,000,000	37,668,495,967	38,168,495,967


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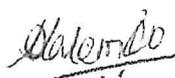

Assistant Accountant General
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Roads Annuity Fund
Annual Reports and Financial Statements For the year ended June 30, 2019

Statement of Cash Flows for the Year Ended 30 June 2019

		2018-2019	2017-2018
	Note	Kshs	Kshs
Cash flows from operating activities			
Receipts			
Levies	6	13,763,600,000	26,142,895,967
Capital Fund			500,000,000
Total Receipts		13,763,600,000	26,642,895,967
Payments			
Transfers to KeRRA	7	652,000,000	1,586,000,000
Total Payments		(652,000,000)	(1,586,000,000)
Net cash flows from operating activities		13,111,600,000	25,056,895,967
Net increase in cash and cash equivalents		13,111,600,000	25,056,895,967
Cash and cash equivalents at the beginning		25,056,895,967	-
Cash and cash equivalents at Year End	8	38,168,495,967.00	25,056,895,967


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Annual Reports and Financial Statements For the year ended June 30, 2019

Statement of Comparison of Budget and Actual Amounts for The Year Ended 30 June 2019

	Original budget	Adjustments	Final budget	Actual on comparable basis	Variance	Percentage
				2018-2019		
Revenue	Kshs	Kshs	Kshs	Kshs	Ksh	%
Transfer From KRB	11,180,000,000	-	11,180,000,000	13,763,600,000	2,583,600,000	123%
Total income	11,180,000,000	-	11,180,000,000	13,763,600,000	2,583,600,000	123%
Expenses						
Transfers to KeRRA	11,180,000,000	-	11,180,000,000	652,000,000.00	10,528,000,000	6%
Total expenditure	11,180,000,000	-	11,180,000,000	652,000,000.00	10,528,000,000	6%
Surplus for the period	-	-	-	13,111,600,000		

Note (a): The reason why the Department got extra money is that the principle of annuity fund is to accumulate fund collections enough to pay future annuities.



Principal Secretary
 Prof. Arch. Paul Mwangi Maringa, (PhD),
 CBS, Corp. Arch, MAAK, MKIP



Assistant Accountant General
 Mwangashi Sophie Wakio
 ICPAK No. 11341

**Roads Annuity Fund
Annual Reports and Financial Statements
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Notes to the Financial Statements

1. GENERAL INFORMATION

The Roads Annuity Fund is established by and derives its authority and accountability from Public Finance Management Act. The Roads Annuity Fund is wholly owned by the Government of Kenya and is domiciled in Kenya. The Roads Annuity Fund's principal activity is to provide funds to meet the national government's annuity payment obligations for the development and maintenance of roads under the Annuity Programme.

2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

The financial statements have been prepared on a historical cost basis. The preparation of financial statements in conformity with International Public Sector Accounting Standards (IPSAS) allows the use of estimates and assumptions. It also requires management to exercise judgement in the process of applying the Roads Annuity Fund's accounting policies. The financial statements have been prepared and presented in Kenya Shillings, which is the functional and reporting currency of the Roads Annuity Fund.

The financial statements have been prepared in accordance with the PFM Act, the State Corporations Act and International Public Sector Accounting Standards (IPSAS). The accounting policies adopted have been consistently applied to all the years presented.

3. ADOPTION OF NEW AND REVISED STANDARDS

i. Relevant new standards and amendments to published standards effective for the year ended 30 June 2018

Standard	Impact
IPSAS 39: Employee Benefits	Applicable: 1st January 2018 The objective to issue IPSAS 39 was to create convergence to changes in IAS 19 Employee benefits. The IPSASB needed to create convergence of IPSAS 25 to the amendments done to IAS 19. The main objective is to ensure accurate information relating to pension liabilities arising from the defined benefit scheme by doing away with the corridor approach.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 ADOPTION OF NEW AND REVISED STANDARDS (Continued)

- ii. New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2017

Standard	Effective date and impact:
IPSAS 40: Public Sector Combinations	Applicable: 1st January 2019: The standard covers public sector combinations arising from exchange transactions in which case they are treated similarly with IFRS 3 (applicable to acquisitions only) Business combinations and combinations arising from non exchange transactions which are covered purely under Public Sector combinations as amalgamations.

- iii. Early adoption of standards

The Roads Annuity Fund did not early – adopt any new or amended standards in year 2018.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Revenue recognition

- i) Revenue from non-exchange transactions

Fees, taxes and fines

The Roads Annuity Fund recognizes revenues from fees, taxes and fines when the event occurs and the asset recognition criteria are met. To the extent that there is a related condition attached that would give rise to a liability to repay the amount, deferred income is recognized instead of revenue. Other non-exchange revenues are recognized when it is probable that the future economic benefits or service potential associated with the asset will flow to the Roads Annuity Fund and the fair value of the asset can be measured reliably.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Levies

Revenues from non-exchange transactions with other government entities are measured at fair value and recognized on obtaining control of the asset (cash, goods, services and property) if the transfer is free from conditions and it is probable that the economic benefits or service potential related to the asset will flow to the Roads Annuity Fund and can be measured reliably. Recurrent grants are recognized in the statement of comprehensive income. Development/capital grants are recognized in the statement of financial position and realised in the statement of comprehensive income over the useful life of the assets that has been acquired using such funds

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

a) Revenue recognition (Continued)

ii) Revenue from exchange transactions

Rendering of services

The Roads Annuity Fund recognizes revenue from rendering of services by reference to the stage of completion when the outcome of the transaction can be estimated reliably. The stage of completion is measured by reference to labour hours incurred to date as a percentage of total estimated labour hours.

Where the contract outcome cannot be measured reliably, revenue is recognized only to the extent that the expenses incurred are recoverable.

Sale of goods

Revenue from the sale of goods is recognized when the significant risks and rewards of ownership have been transferred to the buyer, usually on delivery of the goods and when the amount of revenue can be measured reliably and it is probable that the economic benefits or service potential associated with the transaction will flow to the Roads Annuity Fund.

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Interest income

Interest income is accrued using the effective yield method. The effective yield discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. The method applies this yield to the principal outstanding to determine interest income each period.

Dividends

Dividends or similar distributions must be recognized when the shareholder's or the Roads Annuity Fund's right to receive payments is established.

Rental income

Rental income arising from operating leases on investment properties is accounted for on a straight-line basis over the lease terms and included in revenue.

b) Budget information

The original budget for FY 2018-2019 was approved by the National Assembly in March 2019. Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the appropriate authorities. The additional appropriations are added to the original budget by the Roads Annuity Fund upon receiving the respective approvals in order to conclude the final budget. Accordingly, the Roads Annuity Fund recorded no additional appropriations on the 2017-2018 budgets.

The Roads Annuity Fund's budget is prepared on a different basis to the actual income and expenditure disclosed in the financial statements. The financial statements are prepared on accrual basis using a classification based on the nature of expenses in the statement of financial performance, whereas the budget is prepared on a cash basis. The amounts in the financial statements were recast from the accrual basis to the cash basis and reclassified by presentation to be on the same basis as the approved budget. A comparison of budget and actual amounts, prepared on a comparable basis to the approved budget, is then presented in the statement of comparison of budget and actual amounts.

**Roads Annuity Fund
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NOTES TO THE FINANCIAL STATEMENTS (Continued)

In addition to the Basis difference, adjustments to amounts in the financial statements are also made for differences in the formats and classification schemes adopted for the presentation of the financial statements and the approved budget.

c) Taxes

Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the area where the Roads Annuity Fund operates and generates taxable income.

Current income tax relating to items recognized directly in net assets is recognized in net assets and not in the statement of financial performance. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

e) Taxes (Continued)

Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognized for all taxable temporary differences, except in respect of taxable temporary differences associated with investments in controlled entities, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

Deferred tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except in respect of deductible temporary differences associated with investments in controlled entities, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are re-assessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognized outside surplus or deficit is recognized outside surplus or deficit. Deferred tax items are recognized in correlation to the underlying transaction in net assets.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable Roads Annuity Fund and the same taxation authority.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

c) Taxes (Continued)

Sales tax

Expenses and assets are recognized net of the amount of sales tax, except:

- When the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the sales tax is recognized as part of the cost of acquisition of the asset or as part of the expense item, as applicable
- When receivables and payables are stated with the amount of sales tax included

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

d) Investment property

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the replacement cost of components of an existing investment property at the time that cost is incurred if the recognition criteria are met and excludes the costs of day-to-day maintenance of an investment property.

Investment property acquired through a non-exchange transaction is measured at its fair value at the date of acquisition. Subsequent to initial recognition, investment properties are measured using the cost model and are depreciated over a 30-year period.

Investment properties are derecognized either when they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit or service potential is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in the surplus or deficit in the period of de-recognition.

Transfers are made to or from investment property only when there is a change in use.

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4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

e) Property, plant and equipment

All property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items. When significant parts of property, plant and equipment are required to be replaced at intervals, the Roads Annuity Fund recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in surplus or deficit as incurred. Where an asset is acquired in a non-exchange transaction for nil or nominal consideration the asset is initially measured at its fair value.

f) Leases

Finance leases are leases that transfer substantially all of the risks and benefits incidental to ownership of the leased item to the Roads Annuity Fund. Assets held under a finance lease are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the future minimum lease payments. The Roads Annuity Fund also recognizes the associated lease liability at the inception of the lease. The liability recognized is measured as the present value of the future minimum lease payments at initial recognition.

Subsequent to initial recognition, lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized as finance costs in surplus or deficit.

An asset held under a finance lease is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Roads Annuity Fund will obtain ownership of the asset by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating leases are leases that do not transfer substantially all the risks and benefits incidental to ownership of the leased item to the Roads Annuity Fund. Operating lease payments are recognized as an operating expense in surplus or deficit on a straight-line basis over the lease term.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

g) Intangible assets

Intangible assets acquired separately are initially recognized at cost. The cost of intangible assets acquired in a non-exchange transaction is their fair value at the date of the exchange. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in surplus or deficit in the period in which the expenditure is incurred.

The useful life of the intangible assets is assessed as either finite or indefinite.

h) Research and development costs

The Roads Annuity Fund expenses research costs as incurred. Development costs on an individual project are recognized as intangible assets when the Roads Annuity Fund can demonstrate:

- The technical feasibility of completing the asset so that the asset will be available for use or sale
- Its intention to complete and its ability to use or sell the asset
- How the asset will generate future economic benefits or service potential
- The availability of resources to complete the asset
- The ability to measure reliably the expenditure during development.

Following initial recognition of an asset, the asset is carried at cost less any accumulated amortization and accumulated impairment losses. Amortization of the asset begins when development is complete and the asset is available for use. It is amortized over the period of expected future benefit. During the period of development, the asset is tested for impairment annually with any impairment losses recognized immediately in surplus or deficit.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

i) Financial instruments

Financial assets

Initial recognition and measurement

Financial assets within the scope of IPSAS 29 Financial Instruments: Recognition and Measurement are classified as financial assets at fair value through surplus or deficit, loans and receivables, held-to-maturity investments or available-for-sale financial assets, as appropriate. The Roads Annuity Fund determines the classification of its financial assets at initial recognition.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. Losses arising from impairment are recognized in the surplus or deficit.

Held-to-maturity

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Roads Annuity Fund has the positive intention and ability to hold it to maturity. After initial measurement, held-to-maturity investments are measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The losses arising from impairment are recognized in surplus or deficit.

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Impairment of financial assets

The Roads Annuity Fund assesses at each reporting date whether there is objective evidence that a financial asset or an Roads Annuity Fund of financial assets is impaired. A financial asset or a Roads Annuity Fund of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the Roads Annuity Fund of financial assets that can be reliably estimated. Evidence of impairment may include the following indicators:

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

h) Research and development costs (Continued)

i) Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

- The debtors or a Roads Annuity Fund of debtors are experiencing significant financial difficulty
- Default or delinquency in interest or principal payments
- The probability that debtors will enter bankruptcy or other financial reorganization
- Observable data indicates a measurable decrease in estimated future cash flows (e.g. changes in arrears or economic conditions that correlate with defaults)

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IPSAS 29 are classified as financial liabilities at fair value through surplus or deficit or loans and borrowings, as appropriate. The Roads Annuity Fund determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, plus directly attributable transaction costs.

Loans and borrowing

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in surplus or deficit when the liabilities are derecognized as well as through the effective interest method amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate.

i) Inventories

Inventory is measured at cost upon initial recognition. To the extent that inventory was received through non-exchange transactions (for no cost or for a nominal cost), the cost of the inventory is its fair value at the date of acquisition.

Costs incurred in bringing each product to its present location and conditions are accounted for, as follows:

- Raw materials: purchase cost using the weighted average cost method
- Finished goods and work in progress: cost of direct materials and labor and a proportion of manufacturing overheads based on the normal operating capacity, but excluding borrowing costs

After initial recognition, inventory is measured at the lower of cost and net realizable value. However, to the extent that a class of inventory is distributed or deployed at no charge or for a nominal charge, that class of inventory is measured at the lower of cost and current replacement cost.

Net realizable value is the estimated selling price in the ordinary course of operations, less the estimated costs of completion and the estimated costs necessary to make the sale, exchange, or distribution.

Inventories are recognized as an expense when deployed for utilization or consumption in the ordinary course of operations of the Roads Annuity Fund.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

j) Provisions

Provisions are recognized when the Roads Annuity Fund has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the Roads Annuity Fund expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain.

The expense relating to any provision is presented in the statement of financial performance net of any reimbursement.

Contingent liabilities

The Roads Annuity Fund does not recognize a contingent liability, but discloses details of any contingencies in the notes to the financial statements, unless the possibility of an outflow of resources embodying economic benefits or service potential is remote.

Contingent assets

The Roads Annuity Fund does not recognize a contingent asset, but discloses details of a possible asset whose existence is contingent on the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Roads Annuity Fund in the notes to the financial statements. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits or service potential will arise and the asset's value can be measured reliably, the asset and the related revenue are recognized in the financial statements of the period in which the change occurs.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

k) Nature and purpose of reserves

The Roads Annuity Fund creates and maintains reserves in terms of specific requirements.

l) Changes in accounting policies and estimates

The Roads Annuity Fund recognizes the effects of changes in accounting policy retrospectively. The effects of changes in accounting policy are applied prospectively if retrospective application is impractical.

m) Employee benefits

Retirement benefit plans

The Roads Annuity Fund provides retirement benefits for its employees and directors. Defined contribution plans are post employment benefit plans under which an Roads Annuity Fund pays fixed contributions into a separate Roads Annuity Fund (a fund), and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. The contributions to fund obligations for the payment of retirement benefits are charged against income in the year in which they become payable.

Defined benefit plans are post-employment benefit plans other than defined-contribution plans. The defined benefit funds are actuarially valued tri-annually on the projected unit credit method basis. Deficits identified are recovered through lump sum payments or increased future contributions on proportional basis to all participating employers. The contributions and lump sum payments reduce the post-employment benefit obligation.

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n) Foreign currency transactions

Transactions in foreign currencies are initially accounted for at the ruling rate of exchange on the date of the transaction. Trade creditors or debtors denominated in foreign currency are reported at the statement of financial position reporting date by applying the exchange rate on that date. Exchange differences arising from the settlement of creditors, or from the reporting of creditors at rates different from those at which they were initially recorded during the period, are recognized as income or expenses in the period in which they arise.

o) Borrowing costs

Borrowing costs are capitalized against qualifying assets as part of property, plant and equipment.

Such borrowing costs are capitalized over the period during which the asset is being acquired or constructed and borrowings have been incurred. Capitalization ceases when construction of the asset is complete. Further borrowing costs are charged to the statement of financial performance.

**Roads Annuity Fund
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NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

p) Related parties

The Roads Annuity Fund regards a related party as a person or an Roads Annuity Fund with the ability to exert control individually or jointly, or to exercise significant influence over the Roads Annuity Fund, or vice versa. Members of key management are regarded as related parties and comprise the directors, the CEO and senior managers.

q) Service concession arrangements

The Roads Annuity Fund analyses all aspects of service concession arrangements that it enters into in determining the appropriate accounting treatment and disclosure requirements. In particular, where a private party contributes an asset to the arrangement, the Roads Annuity Fund recognizes that asset when, and only when, it controls or regulates the services the operator must provide together with the asset, to whom it must provide them, and at what price. In the case of assets other than 'whole-of-life' assets, it controls, through ownership, beneficial entitlement or otherwise – any significant residual interest in the asset at the end of the arrangement. Any assets so recognized are measured at their fair value. To the extent that an asset has been recognized, the Roads Annuity Fund also recognizes a corresponding liability, adjusted by a cash consideration paid or received.

r) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at the Central Bank of Kenya and at various commercial banks at the end of the financial year. For the purposes of these financial statements, cash and cash equivalents also include short term cash imprests and advances to authorised public officers and/or institutions which were not surrendered or accounted for at the end of the financial year.

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s) Budget information

The original budget for FY 2018-2019 was approved by the National Assembly in March 2019. Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the appropriate authorities. The additional appropriations are added to the original budget by the Roads Annuity Fund upon receiving the respective approvals in order to conclude the final budget.

The Roads Annuity Fund's budget is prepared on a different basis to the actual income and expenditure disclosed in the financial statements. The financial statements are prepared on accrual basis using a classification based on the nature of expenses in the statement of financial performance, whereas the budget is prepared on a cash basis. The amounts in the financial statements were recast from the accrual basis to the cash basis and reclassified by presentation to be on the same basis as the approved budget. A comparison of budget and actual amounts, prepared on a comparable basis to the approved budget, is then presented in the statement of comparison of budget and actual amounts. In addition to the Basis difference, adjustments to amounts in the financial statements are also made for differences in the formats and classification schemes adopted for the presentation of the financial statements and the approved budget.

A statement to reconcile the actual amounts on a comparable basis included in the statement of comparison of budget and actual amounts and the actuals as per the statement of financial performance.

t) Comparative figures

Where necessary comparative figures for the previous financial year have been amended or reconfigured to conform to the required changes in presentation.

u) Subsequent events

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2019.

5 SIGNIFICANT JUDGMENTS AND SOURCES OF ESTIMATION UNCERTAINTY

The preparation of the Roads Annuity Fund's financial statements in conformity with IPSAS requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods. State all judgements, estimates and assumptions made: e.g

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Roads Annuity Fund based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the Roads Annuity Fund. Such changes are reflected in the assumptions when they occur. IPSAS 1.140

Useful lives and residual values

The useful lives and residual values of assets are assessed using the following indicators to inform potential future use and value from disposal:

The condition of the asset based on the assessment of experts employed by the Roads Annuity Fund

The nature of the asset, its susceptibility and adaptability to changes in technology and processes

The nature of the processes in which the asset is deployed

Availability of funding to replace the asset Changes in the market in relation to the asset

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

6 Levies

Description	2018-2019	2017-2018
	KShs	KShs
Levies	13,763,600,000	26,142,895,967
Total	13,763,600,000	26,142,895,967

7 TRANSFERS TO OTHER GOVERNMENT ENTITIES

Description	2018-2019	2017-2018
	KShs	KShs
Transfers to KeRRA	652,000,000	1,586,000,000
Total	652,000,000	1,586,000,000

8 DETAILED ANALYSIS OF THE CASH AND CASH EQUIVALENTS

Financial institution	Account number	2018-2019	2017-2018
		KShs	KShs
a) Current account			
Central Bank of Kenya-Roads Annuity Fund Account		38,168,495,967	25,056,895,967
Grand total		38,168,495,967	25,056,895,967

9 CAPITAL

Item	2018-2019	2017-2018
Capital Fund	500,000,000	500,000,000
Total	500,000,000	500,000,000

NOTES TO THE FINANCIAL STATEMENTS (Continued)

10 FINANCIAL RISK MANAGEMENT

The Roads Annuity Fund's activities expose it to a variety of financial risks including credit and liquidity risks and effects of changes in foreign currency. The company's overall risk management programme focuses on unpredictability of changes in the business environment and seeks to minimise the potential adverse effect of such risks on its performance by setting acceptable levels of risk. The company does not hedge any risks and has in place policies to ensure that credit is only extended to customers with an established credit history.

The Roads Annuity Fund's financial risk management objectives and policies are detailed below:

(i) Credit risk

The Roads Annuity Fund has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Credit risk arises from cash and cash equivalents, and deposits with banks, as well as trade and other receivables and available-for-sale financial investments.

Management assesses the credit quality of each customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external assessment in accordance with limits set by the directors. The amounts presented in the statement of financial position are net of allowances for doubtful receivables, estimated by the company's management based on prior experience and their assessment of the current economic environment.

The carrying amount of financial assets recorded in the financial statements representing the Roads Annuity Fund's maximum exposure to credit risk without taking account of the value of any collateral obtained is made up as follows:

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	Total amount Kshs	Fully performing Kshs	Past due Kshs	Impaired Kshs
At 30 June 2019				
Bank balances	38,168,495,967	38,168,495,967	-	-
Total	38,168,495,967	38,168,495,967	-	-

The customers under the fully performing category are paying their debts as they continue trading. The credit risk associated with these receivables is minimal and the allowance for uncollectible amounts that the company has recognised in the financial statements is considered adequate to cover any potentially irrecoverable amounts.

The board of directors sets the company's credit policies and objectives and lays down parameters within which the various aspects of credit risk management are operated.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

9. FINANCIAL RISK MANAGEMENT

(ii) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Roads Annuity Fund's directors, who have built an appropriate liquidity risk management framework for the management of the Roads Annuity Fund's short, medium and long-term funding and liquidity management requirements. The Roads Annuity Fund manages liquidity risk through continuous monitoring of forecasts and actual cash flows.

The table below represents cash flows payable by the company under non-derivative financial liabilities by their remaining contractual maturities at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant

(iii) Market risk

The board has put in place an internal audit function to assist it in assessing the risk faced by the Roads Annuity Fund on an ongoing basis, evaluate and test the design and effectiveness of its internal accounting and operational controls.

Market risk is the risk arising from changes in market prices, such as interest rate, equity prices and foreign exchange rates which will affect the Roads Annuity Fund's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. Overall responsibility for managing market risk rests with the Audit and Risk Management Committee.

The company's Finance Department is responsible for the development of detailed risk management policies (subject to review and approval by Audit and Risk Management Committee) and for the day to day implementation of those policies.

There has been no change to the Roads Annuity Fund's exposure to market risks or the manner in which it manages and measures the risk.

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Annual Reports and Financial Statements
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a) Foreign currency risk

The Roads Annuity Fund has no transactional currency exposures. Such exposure arises through purchases of goods and services that are done in currencies other than the local currency.

b) Interest rate risk

Interest rate risk is the risk that the Roads Annuity Fund's financial condition may be adversely affected as a result of changes in interest rate levels. The company's interest rate risk arises from bank deposits. This exposes the company to cash flow interest rate risk. The interest rate risk exposure arises mainly from interest rate movements on the company's deposits.

Management of interest rate risk

To manage the interest rate risk, management has endeavoured to bank with institutions that offer favourable interest rates.

iv) **Capital Risk Management**

The objective of the Roads Annuity Fund's capital risk management is to safeguard the Board's ability to continue as a going concern. The Roads Annuity Fund capital structure comprises of the following funds:

	2018-2019	2017-2018
	Kshs	Kshs
Capital	500,000,000	500,000,000
Retained earnings	37,668,495,967	24,556,895,967
Total funds	38,168,495,967	25,056,895,967
Total borrowings	0	0
Less: cash and bank balances	(38,168,495,967)	(25,056,895,967)
Net debt/(excess cash and cash equivalents)	(38,168,495,967)	(25,056,895,967)
Gearing	0%	0%

11 RELATED PARTY BALANCES

Nature of related party relationships

Entities and other parties related to the Roads Annuity Fund include those parties who have ability to exercise control or exercise significant influence over its operating and financial decisions. Related parties include management personnel, their associates and close family members.

Government of Kenya

The Government of Kenya is the principal shareholder of the *Roads Annuity Fund*, holding 100% of the *Roads Annuity Fund's* equity interest. The Government of Kenya has provided full guarantees to all long-term lenders of the Roads Annuity Fund, both domestic and external. Other related parties include:

- i) The National Government;
- ii) The Parent Ministry;

**Roads Annuity Fund
Annual Reports and Financial Statements
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NOTES TO THE FINANCIAL STATEMENTS (Continued)

11. RELATED PARTY BALANCE (Continued)

Government of Kenya (Continued)

	2018-2019	2017-2018
	Kshs	Kshs
Transactions with related parties		
Transfers to KeRRA	652,000,000	1,586,000,000
a) Receipts from KRB		
Receipts from KRB	13,763,600,000	26,142,895,967
Capital Fund	500,000,000	500,000,000
Total	14,263,600,000	26,642,895,967
Total	14,263,600,000	26,642,895,967

Roads Annuity Fund
Annual Reports and Financial Statements
For the year ended June 30, 2019

NOTES TO THE FINANCIAL STATEMENTS (Continued)

12 EVENTS AFTER THE REPORTING PERIOD

There were no material adjusting and non- adjusting events after the reporting period.

13 ULTIMATE AND HOLDING ROADS ANNUITY FUND

The Roads Annuity Fund is a Fund under the State Department of Infrastructure Its ultimate parent is the Government of Kenya.

14 Currency

The financial statements are presented in Kenya Shillings (Kshs).

**Roads Annuity Fund
Annual Reports and Financial Statements
For the year ended June 30, 2019**

Appendix 1: Progress on Follow up of Auditor Recommendations

The Annuity Fund had no Audit issues to be followed up.


Principal Secretary
Prof. Arch. Paul Mwangi Maringa, (PhD),
CBS, Corp. Arch, MAAK, MKIP

Date 30.09.2019

**Roads Annuity Fund
Annual Reports and Financial Statements
For the year ended June 30, 2019**



BANK RECONCILIATION

ANNUITY ACCOUNT AS AT 30TH JUNE 2019
 ANNUITY ACCOUNT NO. 1000236663

	KShs.	KShs.	KShs.
Balance as per bank certificate			38,168,495,967.00
1 Payments in cash book not yet recorded in bank statement	-		
2 Receipts in bank statement not yet recorded in cash book	-		
3 Payments in bank statement not yet recorded in cash book	-		
4 Receipts in cash book not yet recorded in bank statement	-		
Balance as per the cash book			38,168,495,967.00

Less:

- 1 Payments in cash book not yet recorded in bank statement
- 2 Receipts in bank statement not yet recorded in cash book

Add:

- 3 Payments in bank statement not yet recorded in cash book
- 4 Receipts in cash book not yet recorded in bank statement

I certify that I have verified the Bank Balance in the Cash Book with the Bank statement and that the above reconciliation is correct



 Signature

Assistant Accountant General
 Designation

Date 30-06-2019

ANNUITY ACCOUNT NO. 1000236663 BANK RECONCILIATION
RECEIPTS IN BANK STATEMENT NOT YET RECORDED IN CASH BOOK
AS AT 30TH JUNE 2019

DATE	REF: NO	RECEIPTS PARTICULARS	AMOUNT (KSHS)
TOTAL			<u> </u> <u> </u> <u> </u>

ANNUITY ACCOUNT NO. 1000236663 BANK RECONCILIATION
PAYMENTS IN BANK STATEMENT NOT RECORDED IN CASH BOOK
AS AT 30TH JUNE 2019

DATE	REF: NO	PAYMENT PARTICULARS	AMOUNT (KSHS)
			<hr/>
			TOTAL <hr/>
			<hr/> <hr/>

BANKI KUU Customer number : 122551
P.O.BOX 6C Account number : 1000236663
NAIROBI. Account name : THE ROADS ANNUITY FUND-KES
STATEMEN Opening Balance : 33,230,579,300.00

No.	Txn. Date	Reference No.	Transaction Details	Dr. Amount	Cr. Amount	Balance
1	3-Jul-19	FT19184B5F89	TRFS Payments 007437/		4,937,916,667.00	38,168,495,967.00
Totals					4,937,916,667.00	
				Closing Balance :		38,168,495,967.00



**MINISTRY OF TRANSPORT, INFRASTRUCTURE, HOUSING, URBAN
DEVELOPMENT AND PUBLIC WORKS**
STATE DEPARTMENT FOR INFRASTRUCTURE
Office of the Principal Secretary

Telegram : "MINIWORKS", Nairobi
Telephone (020)2723101
Fax: (020)2719658
Email: psroads@roadsnet.go.ke
Website: www.roadsnet.go.ke

WORKS BUILDING
NGONG ROAD
P.O. Box 30260-00100
NAIROBI

MOTI/I/ACD/BOS/22/VOL.I (105)

27th June, 2019

Mr. Silvester Liech
Assistant Director ICT

Lucy Munene
Senior Accountant

Joel Ngao
Senior Finance Officer

**RE: MEMBERSHIP TO BOARD OF SURVEY OF CASH-
HEADQUARTERS**

In accordance with Section 5.9.9.2 of the Government Financial Regulation and Procedures, you are hereby notified that you have been appointed a member of the Board of Survey at the Cash Office (Headquarters) on 3rd July, 2019 at 9:00 A.M. You will ascertain the cash at the close of the financial year on 30th June 2019.

The membership composition will be as follows:-

- | | | | | |
|-------------------------|------------------------|------------------------|----------|-----------|
| 1. Mr. Silvester Liech- | Assistant Director ICT | - | Chairman | |
| 2. Lucy Munene | - | Senior Accountant | - | Secretary |
| 3. Joel Ngao | - | Senior Finance Officer | - | Member |

Your report should be filled in the F.O.51 Forms in triplicate duly signed and submitted to this office for further necessary action but not later than **31st July, 2019.**

Julius Korir, CBS
PRINCIPAL SECRETARY

REPUBLIC OF KENYA

Date 30 06 2019

Report of the Board al Survey on the Cash and Bank Balances of HQS
STATE DEPT. FOR INFRASTRUCTURE – THE ROADS ANNUITY FUND

business on... 30/06 .2019

The Board, consisting of—(Names and official titles)

MR SILVESTER LIECH	HEAD ICT	CHAIRMAN
MR JOEL NGAO	CFO	MEMBER
MRS LUCY MUNENE	SNR ACCOUNTANT	MEMBER

assembled at the office of HQS CASH OFFICE
at 10.00 AM (time) on the

and the following cash was produced: —

Notes	Sh. NIL
Silver	Sh. NIL
Copper	Sh. NIL
Cheques (as per details on reverse)	Sh. NIL
	NIL

It was observed that cheques amounting to Sh. NIL .cts.. had been on hand for more than 14 days prior to the date of the survey.

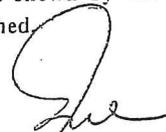
The cash consists of East African currency and does not contain any demetized coin or notes.

The Cash Book reflected the following balances as at the close of business on the

Cash on hand	Sh. NIL
Bank Balance	Sh. 38,168,495,967.00
	38,168,495,967.00

The Bank Certificate of Balance showed a sum of Sh. THIRTY EIGHT BILLION, ONE HUNDRED AND SIXTY EIGHT MILLION, FOUR AND NINETYFIVE THOUSAND,NINE HUNDRED SIXTY SEVENcts. NIL SHS (38,168,495,967.00) standing to the credit of the account on 30TH JUNE 2019

The difference between this figure and the Bank Balance as shown by the Cash Book is accounted for in the Bank Reconciliation Statement (F.O. 30) attached


Chairman.


Members of the board.

Date _____


GPK (L)

BANKI
KUU YA
KENYA



CENTRAL
BANK OF
KENYA

Haile Selassie Avenue
P.O. Box 60000 - 00200 Nairobi, Kenya
Telephone: 2860000. Fax: 340192



22nd July, 2019

CERTIFICATE OF BALANCES

Customer : 122551 STATE DEPARTMENT FOR INFRASTRUCTURE
Balance

Date: 19-Jul-19

Account No	Account Name	Currency	Balance
1000209836	CBK165-STATE DEPT.FOR INFRASTRUCTUR	KES	0.00
1000209844	DEV-STATE DEPT FOR INFRASTRUCTURE	KES	292,256,229.65
1000209925	REC-STATE DEPT. FOR INFRASTRUCTURE	KES	108,147,141.20
1000212535	DEP-STATE DEPT FOR INFRASTRUCTURE	KES	191,621,912.95
1000227834	MSA COUNTY ROADS OFFICER	KES	0.00
1000231157	KENYA. TRANSPORT SECTOR. SUPP. PRJ	KES	370,093.55
1000236663	THE ROADS ANNUITY FUND	KES	38,168,495,967.00
1000284579	E.A REG. TRANS TRADE AND DEV F/PROJ	KES	278,884.40
1000313862	KENYA RURAL ROADS PROJECT(KeRRP)	KES	0.00
1000328045	STATE DEPT OF INFRAS EQUA FUND OPER	KES	152,500,000.00

L. K. RWERIA
AUTHORISED SIGNATORY
BANKING DIVISION

P. S. LENKUME
AUTHORISED SIGNATORY
BANKING DIVISION

